

Camlin Fine Sciences (CFIN IN)

All set for re-rating led by improved earnings visibility

INDIA | SPECIALTY CHEMICALS | Quarterly Update

13 November 2019

Top takeaways from Q2FY20

- ✘ Consolidated Sales at Rs 2.22bn (+10% yoy/-14% qoq) were 14% below our estimates. led by 12 days maintenance shutdown of its Italy plant and weak china sales.
- ✓ The EBITDA margin surprised us positively by 250bps at 13.5% (+490bps/-30bps yoy/qoq) led by strong 530bps qoq expansion in gross margins (to 53.3%) mainly due to better product mix towards blends. Thus, the EBITDA jumped up by 74% to Rs 300mn (estimated Rs 289mn), a beat of 4%.
- ✓ Reported the PAT (impacted by forex loss of Rs 58.8mn) was Rs 69.4mn. However, Adjusted PAT (ex- forex) at Rs 102mn (+900% yoy) were in line with our PC estimates.
- ✓ Standalone sales at Rs 1.43bn were up +21% yoy (flat qoq). EBITDA margins expanded consistently over last 7 quarters to 12.6%. EBITDA was at Rs 180mn (+89%/+32% yoy/qoq). The PAT (adjusted for forex loss of Rs 27mn) was at Rs 97mn (+517% yoy).

Conference call takeaways

- ✓ Blends sales at Rs 750mn (although grew 2% qoq) emerged as the flagship segment of the company with 34% revenue share. Going ahead, CFIN believes to deliver steady progress in blends led by ramp up in US, commercial supply in the Asian region and steady growth in Mexico as well as Brazil (launched new animal nutrition products).
- ✓ CFIN reported a sequential decline (15%) in consolidated sales (while standalone sale remained flat qoq) primarily led by 12days plant shut down in Italy and the seasonal weakness in China vanilla operation temporarily. CFIN expects sequential improvement in both the said businesses in H2.
- ✓ CFIN has already completed the erection and water testing of its upcoming greenfield plant in Dahej and expect to commence the trial run before the end of December 2019 and target commercial commencement in the early January 2020. This plant will come with multiple benefits (compared to its Italy plant) like -1) 10% higher yield, 2) improved product mix (i.e. 60% HQ vs. 45% there), 3) much lower utilities cost, and 4) process waste will be sold as by-product (unlike in Italy). Additionally, the dependency on material from Italy plant will reduce the logistic cost and currency risk meaningfully.
- ⇔ China vanillin sales (fell qoq due to seasonally lean quarter) reported 52% yoy growth but the margin performance was below break-even. CFIN expects to turnaround the business post-Dahej plant commissioning that will offer cost effective input and help it achieve higher plant utilisation in China. Additionally, CFIN expect a fresh capex of Rs 40mn in early Q4 for ethyl vanillin, which will complement its methyl vanillin operation.
- ⇔ On the Lockheed Martin (LM) deal, CFIN guides to supply 1000-1500tn of specialty material in CY21 without any additional capacity for their gamma test.
- ✓ Having delivered margin surprise at 13.5% in Q2 (13.6% in H1), CFIN guides to maintain similar margin in subsequent quarters and indicate the commissioning of Dahej plant would further expand margin performance in Q4.

Outlook and valuation: CFIN's Q2 operating performance was better than our expectations. Going ahead, we expect profitable growth for CFIN led by Dahej plant commissioning, ramp-up in blends business, Improvement in utilization China vanillin plant and continued growth momentum in performance chemicals. We estimate CFIN's sales/EBITDA to grow rapidly at a CAGR of 24%/62% over FY19-22. CFIN currently trades at deep discounts (i.e. 4x FY21 EV/EBITDA and 6x FY21 PE) due to the weak earnings in the recent past but we expect re-rating led by improved earning visibility. Reiterate buy with target price of Rs 140 i.e. 8x FY21 EV/EBITDA.

| (Rs mn) | Q2FY20 | Q1FY20 | qoq Ch % | Q2FY19 | yoy Ch % | vs. expect. % | Comments |
|---------------|--------|--------|----------|--------|----------|---------------|-----------------------------------------------------------------------|
| Net Sales | 2,223 | 2,601 | -14.5 | 2,013 | 10.4 | -15.2 | Led by 12days plant shut down in Italy & seasonal weak vanillin sales |
| EBITDA | 300 | 358 | -16.2 | 172 | 74.4 | 4.1 | |
| EBITDA margin | 13.5 | 13.8 | | 8.6 | | 250bps | Better product mix supports |
| Reported PAT | 69 | 156 | -55.4 | 13 | 430.7 | -31.3 | |
| Core PAT | 102 | 134 | -23.8 | 10 | 899.7 | 1.5 | Adjusted for forex |
| EPS (Rs) | 0.8 | 1.1 | -23.8 | 0.1 | 899.7 | 1.5 | |

BUY (Maintain)

CMP RS 61/TARGET RS 140 (+130%)

SEBI CATEGORY: SMALL CAP

COMPANY DATA

| | |
|------------------------|---------|
| O/S SHARES (MN) : | 121 |
| MARKET CAP (RSBN) : | 8 |
| MARKET CAP (USDMN) : | 0.1 |
| 52 - WK HI/LO (RS) : | 71 / 39 |
| LIQUIDITY 3M (USDMN) : | 0.2 |
| PAR VALUE (RS) : | 1 |

SHARE HOLDING PATTERN, %

| | Sep 19 | Jun 19 | Mar 19 |
|-------------------|--------|--------|--------|
| PROMOTERS : | 22.6 | 22.6 | 22.6 |
| FII / NRI : | 0.9 | 1.1 | 1.3 |
| FI / MF : | 21.2 | 19.1 | 18.9 |
| NON PRO : | 21.1 | 19.9 | 19.1 |
| PUBLIC & OTHERS : | 34.2 | 37.4 | 38.2 |

KEY FINANCIALS

| Rs mn | FY19 | FY20E | FY21E |
|-----------------|-------|--------|--------|
| Net Sales | 8,922 | 10,844 | 14,466 |
| EBIDTA | 697 | 1,518 | 2,329 |
| Net Profit | 109 | 617 | 1,114 |
| EPS, Rs | 0.9 | 5.1 | 9.2 |
| PER, x | 68.0 | 12.0 | 6.6 |
| EV/EBIDTA, x | 15.7 | 7.3 | 4.4 |
| PBV,x% | 2.0 | 1.7 | 1.4 |
| ROE, % | 0.8 | 16.7 | 23.7 |
| Debt/Equity (%) | 124.3 | 107.8 | 93.6 |

CHANGE IN ESTIMATES

| Rs bn | Revised Est. | | % Revision | |
|----------|--------------|--------|------------|-------|
| | FY20E | FY21E | FY20E | FY21E |
| Revenue | 10,844 | 14,466 | -7.7 | -6.4 |
| EBITDA | 2,329 | 2,976 | 2.5 | -0.2 |
| Core PAT | 1,114 | 1,514 | 0.0 | 0.0 |
| EPS (Rs) | 9.2 | 12.5 | 7.8 | -2.3 |

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Q2FY20: Results at a glance

| (Rs mn) | Q1FY19 | Q2FY19 | Q3FY19 | Q4FY19 | Q1FY20 | Q2FY20 | QoQ (%) | YoY (%) |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|---------|---------|
| Total Income | 1814 | 2013 | 2414 | 2680 | 2601 | 2223 | -14.5 | 10.4 |
| Adjusted RM cost | 879 | 1048 | 1271 | 1551 | 1353 | 1037 | -23.3 | -1.0 |
| % of sales | 48.5 | 52.0 | 52.6 | 57.9 | 52.0 | 46.7 | | |
| Gross Profit | 935 | 966 | 1143 | 1130 | 1248 | 1186 | -5.0 | 22.8 |
| Gross Margin% | 51.5 | 48.0 | 47.4 | 42.1 | 48.0 | 53.3 | | |
| Employee Expenses | 198 | 218 | 226 | 237 | 227 | 236 | 4.1 | 8.2 |
| % of sales | 10.9 | 10.8 | 9.4 | 8.8 | 8.7 | 10.6 | | |
| Other Expenses | 598 | 575 | 710 | 679 | 663 | 649 | -2.1 | 12.9 |
| % of sales | 33.0 | 28.6 | 29.4 | 25.3 | 25.5 | 29.2 | | |
| Total operating expenditure | 1675 | 1841 | 2206 | 2466 | 2243 | 1923 | -14.3 | 4.4 |
| % of sales | 92.3 | 91.4 | 91.4 | 92.0 | 86.2 | 86.5 | | |
| Operating profit | 139 | 172 | 208 | 214 | 358 | 300 | -16.2 | 74.4 |
| OPM (%) | 7.7 | 8.6 | 8.6 | 8.0 | 13.8 | 13.5 | | |
| Other Income | 22 | 23 | 8 | 46 | 7 | 6 | | |
| Depreciation | 72 | 76 | 68 | 73 | 76 | 77 | | |
| EBIT | 89 | 118 | 148 | 187 | 289 | 230 | -20.4 | 94.3 |
| EBIT margin (%) | 4.9 | 5.9 | 6.1 | 7.0 | 11.1 | 10.3 | | |
| Interest | 88 | 95 | 111 | 61 | 83 | 85 | | |
| PBT | 1 | 23 | 37 | 126 | 206 | 144 | -29.8 | 514.6 |
| Exceptional Item | -16 | -76 | 53 | 59 | -21 | 59 | | |
| Core PBT after EO | 17 | 100 | -16 | 67 | 227 | 86 | -62.3 | -14.2 |
| Total tax | 61 | 80 | -8 | 4 | 63 | 10 | | |
| Tax rate (%) | 367.1 | 342.4 | -21.7 | 2.9 | 30.4 | 7.2 | | |
| Reported profit | -44 | 19 | -8 | 64 | 164 | 75 | -54.2 | 290.3 |
| Net profit margin (%) | -2.4 | 1.0 | -0.3 | 2.4 | 6.3 | 3.4 | | |
| Reported PAT after MI | -60 | 13 | -20 | 74 | 156 | 69 | -55.4 | 430.7 |
| Core PAT | -15 | 10 | 14 | 98 | 134 | 102 | -23.8 | 899.7 |
| Core EPS | -0.1 | 0.1 | 0.1 | 0.8 | 1.1 | 0.8 | -23.8 | 899.7 |

Source: Company, PhillipCapital India Research Estimates

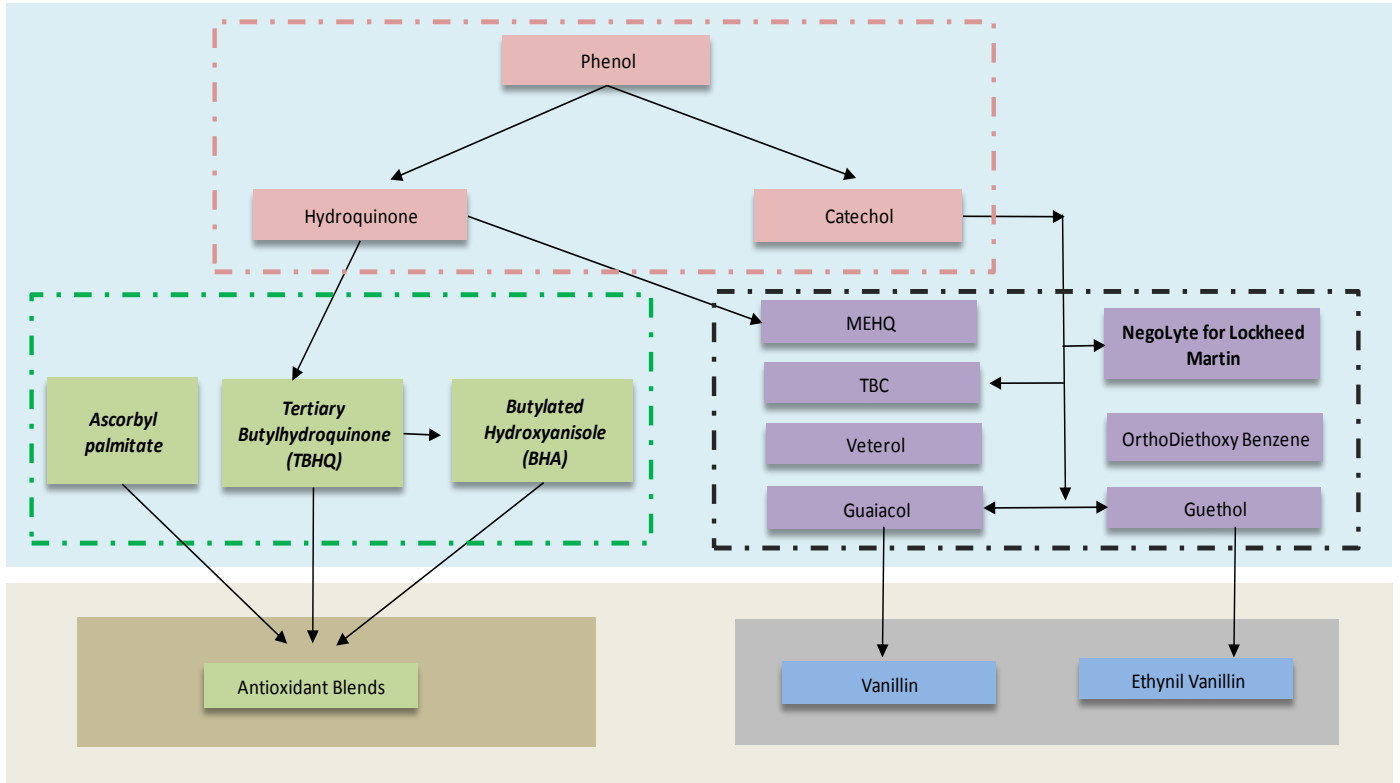
Q2FY20: Subsidiaries revenue performance

| (Rs mn) | Q4FY18 | Q1FY19 | Q2FY19 | Q3FY19 | Q4FY19 | Q1FY20 | QoQ (%) | YoY (%) |
|-------------------|--------|--------|--------|--------|--------|--------|---------|---------|
| CFS India | 1,079 | 1,188 | 1,499 | 1,715 | 1,436 | 1,435 | -0.1 | 20.8 |
| CFS Brazil | 85 | 128 | 91 | 108 | 119 | 149 | 24.9 | 16.4 |
| CFS North America | 36 | 39 | 32 | 128 | 122 | 97 | -20.6 | 148.7 |
| CFS Europe | 794 | 767 | 857 | 872 | 1,031 | 787 | -23.7 | 2.6 |
| CFS Mexico | 505 | 505 | 581 | 520 | 568 | 610 | 7.4 | 20.8 |
| CFS Wanglong | 221 | 186 | 629 | 310 | 463 | 283 | -38.9 | 52.2 |

Source: Company, PhillipCapital India Research Estimates

CFIN's Vertically Integrated Business Model

Strategic forward integration into Blends and Vanillin swings business model from food ingredients to high value food additives



Source: Company, PhillipCapital India Research

Financials

Income Statement

| Y/E Mar, Rs mn | FY19 | FY20e | FY21e | FY22e |
|------------------------------|--------------|---------------|---------------|---------------|
| Net sales | 8,922 | 10,844 | 14,466 | 17,103 |
| Growth, % | 23 | 22 | 33 | 18 |
| Total income | 8,922 | 10,844 | 14,466 | 17,103 |
| Raw material expenses | -4,748 | -5,476 | -7,276 | -8,466 |
| Employee expenses | -879 | -976 | -1,157 | -1,368 |
| Other Operating expenses | -2,598 | -2,874 | -3,703 | -4,293 |
| EBITDA (Core) | 697 | 1,518 | 2,329 | 2,976 |
| Growth, % | 350.4 | 117.9 | 53.4 | 27.8 |
| Margin, % | 7.8 | 14.0 | 16.1 | 17.4 |
| Depreciation | -290 | -332 | -398 | -447 |
| EBIT | 407 | 1,186 | 1,931 | 2,529 |
| Growth, % | (463.5) | 191.7 | 62.8 | 31.0 |
| Margin, % | 4.6 | 10.9 | 13.3 | 14.8 |
| Interest paid | -354 | -345 | -398 | -412 |
| Other Non-Operating Income | 138 | 108 | 145 | 171 |
| Pre-tax profit | 168 | 950 | 1,677 | 2,288 |
| Tax provided | -137 | -237 | -419 | -572 |
| Profit after tax | 31 | 712 | 1,258 | 1,716 |
| Net Profit | 31 | 712 | 1,258 | 1,716 |
| Growth, % | (135.8) | 467.9 | 80.4 | 36.0 |
| Net Profit (adjusted) | 109 | 617 | 1,114 | 1,514 |
| Unadj. shares (m) | 121 | 121 | 121 | 121 |
| Wtd avg shares (m) | 121 | 121 | 121 | 121 |

Balance Sheet

| Y/E Mar, Rs mn | FY19 | FY20e | FY21e | FY22e |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Cash & bank | 1,034 | 881 | 2,163 | 3,649 |
| Debtors | 2,093 | 2,560 | 3,215 | 3,706 |
| Inventory | 2,854 | 2,979 | 3,540 | 4,003 |
| Loans & advances | 250 | 239 | 289 | 342 |
| Other current assets | 730 | 730 | 730 | 730 |
| Total current assets | 6,962 | 7,389 | 9,938 | 12,429 |
| Investments | 105 | 105 | 105 | 105 |
| Gross fixed assets | 5,248 | 6,774 | 7,110 | 7,452 |
| Less: Depreciation | -2,968 | -3,300 | -3,698 | -4,146 |
| Add: Capital WIP | 1,034 | 661 | 661 | 561 |
| Net fixed assets | 3,314 | 4,135 | 4,072 | 3,867 |
| Total assets | 10,868 | 12,116 | 14,602 | 16,889 |
| Current liabilities | 1,856 | 2,560 | 3,617 | 4,276 |
| Provisions | 94 | 94 | 94 | 94 |
| Total current liabilities | 1,950 | 2,655 | 3,711 | 4,370 |
| Non-current liabilities | 4,615 | 4,604 | 4,982 | 5,158 |
| Total liabilities | 6,565 | 7,258 | 8,693 | 9,527 |
| Paid-up capital | 121 | 121 | 121 | 121 |
| Reserves & surplus | 3,588 | 4,142 | 5,194 | 6,646 |
| Shareholders' equity | 4,303 | 4,858 | 5,909 | 7,361 |
| Total equity & liabilities | 10,868 | 12,116 | 14,602 | 16,889 |

Cash Flow

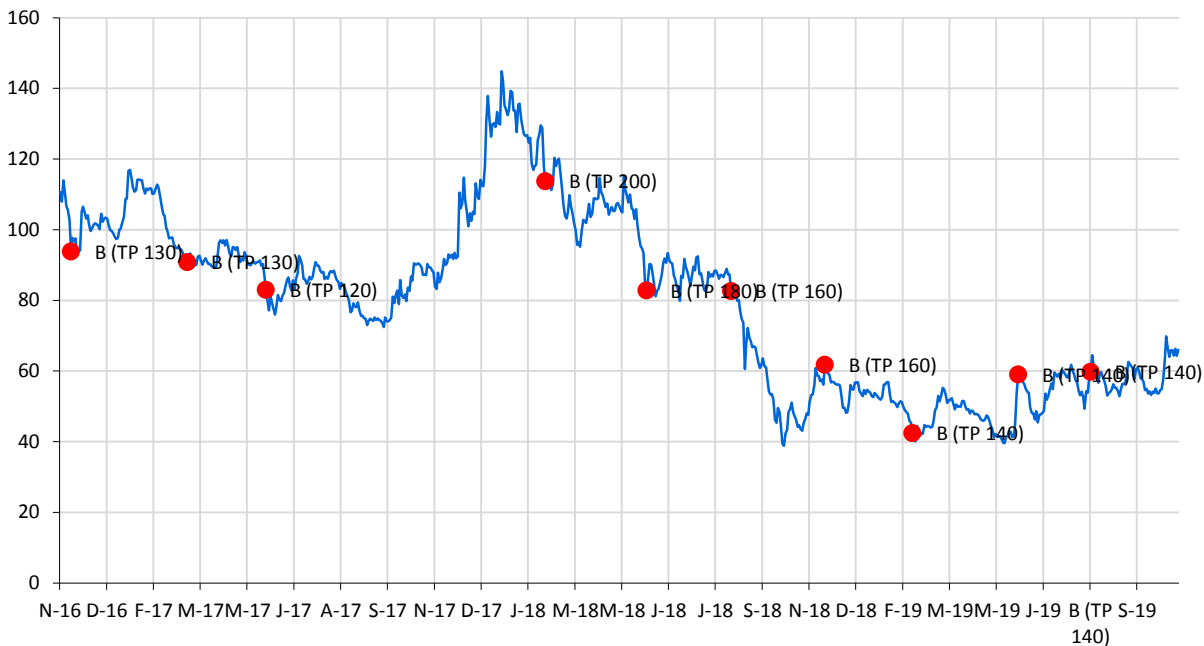
| Y/E Mar, Rs mn | FY19 | FY20e | FY21e | FY22e |
|--------------------------------------------|--------------|---------------|--------------|--------------|
| PAT | 6 | 617 | 1,114 | 1,514 |
| Depreciation | 290 | 332 | 398 | 447 |
| Change in WC | -928 | 123 | -210 | -347 |
| Cash flow from operating activities | -633 | 1,072 | 1,302 | 1,614 |
| Capital expenditure | -687 | -1,152 | -335 | -242 |
| Misc Exp | -29 | 0 | 0 | 0 |
| Cash flow from investing activities | -716 | -1,152 | -335 | -242 |
| Equity | 35 | 0 | 0 | 0 |
| Dividends | -62 | -62 | -62 | -62 |
| Debt | 881 | -11 | 379 | 175 |
| Investments | 1,049 | 0 | 0 | 0 |
| Cash flow from financing activities | 1,902 | -74 | 316 | 113 |
| Net chg in cash | 554 | -154 | 1,283 | 1,485 |
| Opening cash balance | 481 | 1,034 | 881 | 2,163 |
| Closing cash balance | 1,034 | 881 | 2,163 | 3,649 |

Valuation Ratios

| | FY19 | FY20e | FY21e | FY22e |
|--------------------------------|---------|-------|-------|-------|
| Per Share data | | | | |
| EPS (INR) | 0.9 | 5.1 | 9.2 | 12.5 |
| Growth, % | (135.8) | 467.9 | 80.4 | 36.0 |
| Book NAV/share (INR) | 30.6 | 35.2 | 43.8 | 55.8 |
| FDEPS (INR) | 0.9 | 5.1 | 9.2 | 12.5 |
| CEPS (INR) | 3.3 | 7.8 | 12.5 | 16.2 |
| CFPS (INR) | (6.3) | 8.7 | 10.7 | 13.6 |
| Return ratios | | | | |
| Return on equity (%) | 0.8 | 16.7 | 23.7 | 25.4 |
| Return on capital employed (%) | 6.1 | 13.7 | 19.1 | 21.6 |
| Turnover ratios | | | | |
| Asset turnover (x) | 1.3 | 1.4 | 1.8 | 2.1 |
| Sales/Total assets (x) | 0.8 | 0.9 | 1.1 | 1.1 |
| Sales/Net FA (x) | 2.9 | 2.9 | 3.5 | 4.3 |
| Working capital/Sales (x) | 0.5 | 0.4 | 0.3 | 0.3 |
| Receivable days | 85.6 | 86.2 | 81.1 | 79.1 |
| Working capital days | 166.6 | 132.9 | 104.9 | 96.1 |
| Liquidity ratios | | | | |
| Current ratio (x) | 3.8 | 2.9 | 2.7 | 2.9 |
| Quick ratio (x) | 2.2 | 1.7 | 1.8 | 2.0 |
| Interest cover (x) | 1.1 | 3.4 | 4.9 | 6.1 |
| Total debt/Equity (%) | 124.3 | 107.8 | 93.6 | 76.1 |
| Net debt/Equity (%) | 96.4 | 87.2 | 52.9 | 22.2 |
| Valuation | | | | |
| PER (x) | 68.0 | 12.0 | 6.6 | 4.9 |
| PEG (x) - y-o-y growth | (0.5) | 0.0 | 0.1 | 0.1 |
| Price/Book (x) | 2.0 | 1.7 | 1.4 | 1.1 |
| EV/Net sales (x) | 1.2 | 1.0 | 0.7 | 0.5 |
| EV/EBITDA (x) | 15.7 | 7.3 | 4.4 | 3.0 |
| EV/EBIT (x) | 27.0 | 9.4 | 5.3 | 3.5 |

Source: Company, PhillipCapital India Research Estimates

Stock Price, Price Target and Rating History



Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year. We have different threshold for large market capitalisation stock and Mid/small market capitalisation stock. The categorisation of stock based on market capitalisation is as per the SEBI requirement.

Large cap stocks

| Rating | Criteria | Definition |
|---------|-----------------------------|-------------------------------------------------------------------|
| BUY | $\geq +10\%$ | Target price is equal to or more than 10% of current market price |
| NEUTRAL | $-10\% > \text{to} < +10\%$ | Target price is less than +10% but more than -10% |
| SELL | $\leq -10\%$ | Target price is less than or equal to -10%. |

Mid cap and Small cap stocks

| Rating | Criteria | Definition |
|---------|-----------------------------|-------------------------------------------------------------------|
| BUY | $\geq +15\%$ | Target price is equal to or more than 15% of current market price |
| NEUTRAL | $-15\% > \text{to} < +15\%$ | Target price is less than +15% but more than -15% |
| SELL | $\leq -15\%$ | Target price is less than or equal to -15%. |

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